

Attachment D – ITAC & UTAC Membership Forms

MEMBERSHIP APPLICATION AND AGREEMENT  
ILLINOIS TELECOMMUNICATIONS ACCESS CORPORATION

Name of Applicant: IPVoice Communications, Inc.

Address of Applicant: 5050 No. 19th Ave., Ste. 416

Phoenix, Arizona 85015

Name, title, address, and telephone number of responsible individual with applicant to whom communications should be sent:

Julie Bahavar

Controller

5050 No. 19th Ave., Ste. 416

Phoenix, Arizona 85015

(602) 335-1231

The applicant hereby applies for membership in the Illinois Telecommunications Access Corporation ("Corporation"), an Illinois not-for-profit corporation. Upon the applicant's execution of this application and submission of this application to the corporation, the corporation will accept and execute this application in the space provided below, and will return an executed copy of this application to the applicant.

In support of its application for membership, the applicant states and agrees as follows:

1. Applicant is a telecommunications carrier providing local service as defined in the Illinois Public Utilities Act ("PUA").
2. Applicant agrees that it will be subject to, and have those rights and obligations set forth in, the By-laws of the corporation as adopted by the corporation's board of directors and approved by the Illinois Commerce Commission ("Commission"), as now in effect and as amended from time to time in the future.
3. Applicant acknowledges that the corporation is subject to the continuing supervision of and regulation by the Commission, and that the rights and obligations of each member may change as a result of this supervision and regulation.
4. To the extent from time to time approved by the Commission, the applicant delegates to the corporation authority to make such actions on behalf of the applicant as shall be necessary for the applicant to comply with its obligations under Section 13-703 of the PUA.
5. Applicant agrees to pay such portions of the monies collected by or on behalf of the applicant under and pursuant to Section 13-703 of the PUA (including income therefrom and appreciation thereon) as the Commission may from time to time order or as the corporation may from time to time request in accordance with orders of the Commission.

Dated: December 1, 1999

By: Julie Bahavar

Title: President

SPACE BELOW TO BE COMPLETED BY ITAC ONLY

Acceptance: The above application and agreement is hereby accepted and the applicant is hereby accepted for membership in the corporation.

Date: \_\_\_\_\_

Illinois Telecommunications Access Corporation

By: \_\_\_\_\_

Title: \_\_\_\_\_

MEMBERSHIP APPLICATION AND AGREEMENT  
UNIVERSAL TELEPHONE ASSISTANCE CORPORATION

Name of Applicant: IPVoice Communications, Inc.

Address of Applicant: 5050 No. 19th Ave., Ste. 416

Phoenix, Arizona 85015

Name, title, address, and telephone number of responsible individual with applicant to whom communications should be sent:

Barbara S. Will

President

5050 No. 19th Ave., Ste. 416

Phoenix, Arizona 85015

(602) 335-1231

The applicant hereby applies for membership in the Universal Telephone Assistance Corporation ("Corporation"), an Illinois not-for-profit corporation. Upon the applicant's execution of this application and submission of this application to the Corporation, the Corporation will accept and execute this application in the space provided below, and will return an executed copy of this application to the applicant.

In support of its application for membership, the applicant states and agrees as follows:

1. Applicant is a telecommunications carrier providing local service as defined in the Illinois Public Utilities Act ("PUA").
2. Applicant agrees that it will be subject to, and have those rights and obligations set forth in, the By-laws of the corporation as adopted by the Corporation's board of directors and approved by the Illinois Commerce Commission ("Commission"), as now in effect and as amended from time to time in the future.
3. Applicant acknowledges that the corporation is subject to the continuing supervision of and regulation by the Commission, and that the rights and obligations of each member may change as a result of this supervision and regulation.
4. To the extent from time to time approved by the Commission, the applicant delegates to the corporation authority to make such actions on behalf of the applicant as shall be necessary for the applicant to comply with its obligations under Section 13-301.1 of the PUA.
5. Applicant agrees to pay such portions of the monies collected by or on behalf of the applicant under and pursuant to Section 13-301.1 of the PUA (including income therefrom and appreciation thereon) as the Commission may from time to time order or as the corporation may from time to time request in accordance with orders of the Commission.

Dated: 6/20/2000

By: Barbara S. Will

Title: President

SPACE BELOW TO BE COMPLETED BY UTAC ONLY

Acceptance: The above application and agreement is hereby accepted and the applicant is hereby accepted for membership in the corporation.

Date: \_\_\_\_\_

Universal Telephone Assistance Corporation

By: \_\_\_\_\_

Title: \_\_\_\_\_

Attachment E - Financial Information

See Attached

by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results or developments will conform with the Company's expectations and predictions is subject to a number of risks and uncertainties, general economic market and business conditions; the business opportunities (or lack thereof) that may be presented to and pursued by the Company; changes in laws or regulation; and other factors, most of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this Form 10-KSB are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequence to or effects on the Company or its business or operations.

## **Item 7. Financial Statements**

**IPVoice.com, Inc.**

**(A Development Stage Enterprise)**

**Audited Financial Statements**

**For the Years Ended December 31, 1999 and 1998  
and from February 19, 1997 (Inception) through December 31, 1999**

## INDEX TO FINANCIAL STATEMENTS

Independent Auditors' Report .....	F-2
Consolidated Balance Sheets .....	F-3
Consolidated Statements of Operations .....	F-4
Consolidated Statements of Stockholders' Deficiency .....	F-5
Consolidated Statements of Cash Flows .....	F-6
Notes to Consolidated Financial Statements .....	F-7

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
IPVoice.com, Inc.  
(A Development Stage Enterprise)  
Phoenix, Arizona

We have audited the accompanying consolidated balance sheets of IPVoice.com, Inc., a development stage enterprise, (the "Company") as of December 31, 1999 and 1998 and the related consolidated statements of operations, stockholders' deficiency and cash flows for the years ended December 31, 1999 and 1998 and from February 19, 1997 (Inception) through December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 1999 and 1998 and the results of their operations and their cash flows for the years ended December 31, 1999 and 1998 and from February 19, 1997 (Inception) through December 31, 1999, in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 4 to the consolidated financial statements, the Company has experienced a net loss since inception, and reflects negative working capital and stockholders' deficiency as of December 31, 1999. The Company's financial position and operating results raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 4. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Durland & Company, CPAs, P.A.

Palm Beach, Florida  
March 7, 2000

**IPVoice.com, Inc.**  
**(A Development Stage Enterprise)**  
**Consolidated Statements of Stockholders' Deficiency**

	Number of Shares		Par Value		Additional	Stock	Deficit	Total
	Preferred	Common	Preferred	Common	Paid-in	Subscription	Accumulated	Stockholders'
			Stock	Stock	Capital	Receivable	During the	Deficiency
							Development	
							Stage	
<b>BEGINNING BALANCE,</b>								
February 19, 1997 (Inception)	0	0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2/97 - founder's serv. (\$0.001/sh.)	0	9,000,000	0	9,000	0	0	0	9,000
3/97 - cash (\$0.01/sh.)	0	1,400,000	0	1,400	12,600	(12,274)	0	1,726
Net loss	0	0	0	0	0	0	(22,981)	
<b>BALANCE,</b>								
December 31, 1997	0	10,400,000	\$ 0	\$ 10,400	\$ 12,600	\$ (12,274)	\$ (22,981)	\$ (12,255)
3/19 - donated-rel. party (\$0.001/sh.)	0	(9,000,000)	0	(9,000)	9,000	0	0	0
3/19 - acquisition (\$0.001)	0	9,000,000	0	9,000	(9,000)	0	0	0
3/20 - cash received	0	0	0	0	0	12,274	0	12,274
2 <sup>nd</sup> qtr. - cash (\$1.00/sh.)	0	144,000	0	144	143,856	0	0	144,000
3 <sup>rd</sup> qtr. - cash (\$1.00/sh.)	0	10,000	0	10	9,990	0	0	10,000
3 <sup>rd</sup> qtr. - cash (\$0.75/sh.)	0	53,333	0	53	39,947	0	0	40,000
3 <sup>rd</sup> qtr. - cash (\$0.50/sh.)	0	20,000	0	20	9,980	0	0	10,000
3 <sup>rd</sup> qtr. - cash (\$0.25/sh.)	0	100,000	0	100	24,900	0	0	25,000
3 <sup>rd</sup> qtr. - cash \$0.10/sh.)	0	627,000	0	627	62,073	(62,700)	0	0
3 <sup>rd</sup> qtr. - services (\$0.10/sh.)	0	473,000	0	473	46,827	0	0	47,300
4 <sup>th</sup> qtr. - cash (\$0.15/sh.)	0	396,666	0	397	56,103	0	0	56,500
4 <sup>th</sup> qtr. - services (\$0.15/sh.)	0	275,000	0	275	40,975	0	0	41,250
4 <sup>th</sup> qtr. - cash (\$0.19/sh.)	0	80,000	0	80	14,920	0	0	15,000
Net loss	0	0	0	0	0	0	(507,685)	(507,685)
<b>BALANCE,</b>								
December 31, 1998	0	12,578,999	0	12,579	465,171	(62,700)	(530,666)	(115,616)
1 <sup>st</sup> qtr. - cash (\$0.22/sh.)	0	687,499	0	687	149,313	0	0	150,000
1 <sup>st</sup> qtr. - services (\$0.87/sh.)	0	493,760	0	494	429,070	0	0	429,564
2 <sup>nd</sup> qtr. - cash received	0	0	0	0	0	60,000	0	60,000
2 <sup>nd</sup> qtr. - cash (\$4.00/sh.)	1,150	0	1	0	4,599	0	0	4,600
2 <sup>nd</sup> qtr. - cash (\$0.15/sh.)	0	2,005,000	0	2,005	293,995	0	0	296,000
3 <sup>rd</sup> qtr. - cash (\$0.40/sh.)	0	437,500	0	438	174,562	0	0	175,000
3 <sup>rd</sup> qtr. - cash received	0	0	0	0	0	2,700	0	2,700
3 <sup>rd</sup> qtr. - services (\$1.00)	0	10,000	0	10	9,990	0	0	10,000
4 <sup>th</sup> qtr. - services (\$0.21)	0	210,000	0	210	43,540	0	0	43,750
Net loss	0	0	0	0	0	0	(1,973,834)	(1,973,834)
<b>BALANCE,</b>								
December 31, 1999	1,150	16,422,758	\$ 1	\$ 16,423	\$ 1,570,240	\$ 0	\$ (2,504,500)	\$ (917,836)

The accompanying notes are an integral part of the financial statements



**IPVoice.com, Inc.**  
**(A Development Stage Enterprise)**  
**Consolidated Balance Sheet**

December 31,

ASSETS	1999	1998
<b>CURRENT ASSETS</b>		
Cash	\$ 98,592	\$ 908
Certificate of deposit - restricted	25,205	0
Accounts receivable	108,100	0
Inventory	7,586	152,980
Prepaid expenses	16,865	0
Total current assets	<u>256,348</u>	<u>153,888</u>
<b>PROPERTY AND EQUIPMENT</b>		
Computer equipment	369,619	30,953
Office equipment	19,019	11,015
Furniture and fixtures	29,445	0
Subtotal property and equipment	418,083	41,968
Less accumulated depreciation	(40,528)	(4,343)
Total property and equipment	<u>377,555</u>	<u>37,625</u>
<b>Total Assets</b>	<u><u>\$ 633,903</u></u>	<u><u>\$ 191,513</u></u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses		
Trade	\$ 326,524	\$ 191,817
Officer	17,403	34,268
Related party	40,896	20,564
Accrued payroll taxes	1,005	35,730
Accrued interest - stockholders	12,690	0
Deferred revenue	7,821	0
Advances from stockholder	0	24,750
Total current liabilities	<u>406,339</u>	<u>307,129</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable	1,145,400	0
Total long-term liabilities	<u>1,145,400</u>	<u>0</u>
<b>Total Liabilities</b>	<u>1,551,739</u>	<u>307,129</u>
<b>STOCKHOLDERS' DEFICIENCY</b>		
Senior Convertible Preferred stock, \$0.001 par value, authorized 10,000,000 shares; 1,150 and 0 issued and outstanding shares	1	0
Common stock, \$0.001 par value, authorized 50,000,000 shares; 16,422,758 and 12,578,999 issued and outstanding shares	16,423	12,579
Additional paid-in capital	1,570,240	465,171
Stock subscription receivable	0	(62,700)
Deficit accumulated during the development stage	(2,504,500)	(530,666)
Total stockholders' deficiency	<u>(917,836)</u>	<u>(115,616)</u>
<b>Total Liabilities and Stockholders' Deficiency</b>	<u><u>\$ 633,903</u></u>	<u><u>\$ 191,513</u></u>

The accompanying notes are an integral part of the financial statements

**IPVoice.com, Inc.**  
**(A Development Stage Enterprise)**  
**Consolidated Statements of Operations**

	Year Ended December 31,		Period from February 19, 1997 (Inception) through December 31, 1999
	1999	1998	
NET SALES	\$ 321,279	\$ 41,254	\$ 362,533
COST OF SALES	305,434	0	305,434
Gross profit	15,845	41,254	57,099
OPERATING EXPENSES			
Compensation			
Officers	340,896	140,076	480,972
Other	78,522	37,715	116,237
Consulting	470,765	0	470,765
Consulting - related party	267,564	91,096	322,291
General and administrative	605,749	275,709	881,458
Research and development	97,403	0	97,403
Organization expense - related party	0	0	14,000
Depreciation and amortization	36,185	4,343	40,528
Total operating expenses	1,897,084	548,939	2,423,654
Loss from operations	(1,881,239)	(507,685)	(2,366,555)
OTHER INCOME (EXPENSE)			
Interest expense	(64,387)	0	(64,387)
Interest income	20,324	0	20,324
Write-off of receivable	(48,532)	0	(48,532)
Total other income (expense)	(92,595)	0	(92,595)
Net loss	\$ (1,788,644)	\$ (507,685)	\$ (2,273,960)
Loss per common share	\$ (0.13)	\$ (0.04)	
Number of weighted average common shares outstanding	15,413,751	11,620,451	

The accompanying notes are an integral part of the financial statements

**IPVoice.com, Inc.**  
**(A Development Stage Enterprise)**  
**Consolidated Statements of Cash Flows**

	Year Ended December 31,		Period from February 19, 1997 (Inception) through December 31, 1999
	1999	1998	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (1,973,834)	\$ (507,685)	\$ (2,504,500)
Adjustments to reconcile net loss to net cash used by operating activities:			
Stock issued for services - related party	34,064	88,550	131,614
Stock issued for services - other	449,250	0	449,250
Depreciation	36,185	4,343	40,528
Interest credited to certificate of deposit	(205)	0	(205)
Changes in operating assets and liabilities			
(Increase) decrease in inventory	(7,586)	(152,980)	(7,586)
(Increase) decrease in accounts receivable	(108,100)	0	(108,100)
(Increase) decrease in prepaid expenses	(16,865)	0	(16,865)
Increase (decrease) in accounts payable - trade	134,707	191,817	326,524
Increase (decrease) in accounts payable - officer	(16,865)	34,268	17,403
Increase (decrease) in accounts payable - related party	20,332	6,564	40,896
Increase (decrease) in deferred revenue	7,821	0	7,821
Increase (decrease) in accrued payroll taxes	(34,725)	35,730	1,005
Increase (decrease) in accrued interest	12,690	0	12,690
Net cash used by operating activities	<u>(1,463,131)</u>	<u>(299,393)</u>	<u>(1,609,525)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>			
Purchase certificate of deposit	(25,000)	0	(25,000)
Purchase of property and equipment	<u>(223,135)</u>	<u>(41,968)</u>	<u>(418,083)</u>
Net cash used by investing activities	<u>(248,135)</u>	<u>(41,986)</u>	<u>(443,083)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES :</b>			
Increase (decrease) in advance from shareholder	(24,750)	24,750	0
Proceeds from notes payable	1,145,400	0	1,145,400
Common stock issued for cash	621,000	303,500	926,226
Preferred stock issued for cash	4,600	0	4,600
Proceeds from stock subscription receivable	<u>62,700</u>	<u>12,274</u>	<u>74,974</u>
Net cash provided by financing activities	<u>1,808,950</u>	<u>340,524</u>	<u>2,151,200</u>
Net increase (decrease) in cash	97,684	(837)	98,592
CASH, beginning of period	908	1,745	0
CASH, end of period	<u>\$ 98,592</u>	<u>\$ 908</u>	<u>\$ 98,592</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Interest paid in cash	<u>\$ 51,697</u>	<u>\$ 0</u>	<u>\$ 51,697</u>
<b>Non-Cash Financing Activities:</b>			
Stock subscription receivable	<u>\$ 0</u>	<u>\$ (62,700)</u>	<u>\$ 0</u>
Donated capital - related party	<u>\$ 0</u>	<u>\$ 9,000</u>	<u>\$ 9,000</u>
Inventory transferred to property and equipment	<u>\$ 152,980</u>	<u>\$ 0</u>	<u>\$ 152,980</u>

**IPVoice.com, Inc.**  
**(A Development Stage Enterprise)**  
**Notes to Consolidated Financial Statements**

**(1) Summary of Significant Accounting Principles**

The Company IPVoice.com, Inc., (the "Company"), is a Nevada chartered development stage corporation which conducts business from its headquarters in Phoenix, Arizona. The Company was incorporated on February 19, 1997 as Nova Enterprises, Inc., and changed its name to IPVoice Communications, Inc. in March 1998, and to IPVoice.com, Inc. in April 1999. The company is principally involved in the internet telephone industry. The Company is in the development stage. Although the Company has received revenue, it is not yet considered material to its intended operations. Company has received limited operating revenues and will continue to incur expenses during its development, possibly in excess of revenue.

The following summarize the more significant accounting and reporting policies and practices of the Company:

**a) Use of estimates** The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition, and revenues and expenses for the year then ended. Actual results may differ from those estimates.

**b) Significant acquisition** In March 1998, IPVoice.com, Inc., a Nevada corporation, acquired 100% of the issued and outstanding shares of the common stock of IPVoice Communications, Inc., a Delaware corporation, in a reverse merger, which was accounted for as a reorganization of the Delaware company.

**c) Principles of consolidation** The consolidated financial statements include the accounts of IPVoice.com, Inc. and its wholly owned subsidiary. All intercompany balances and transactions have been eliminated.

**d) Net loss per share** Basic net loss per weighted average common share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period.

**e) Stock compensation for services rendered** The Company issues shares of common stock in exchange for services rendered. The costs of the services are valued according to generally accepted accounting principles and have been charged to operations.

**f) Inventory** Inventory consists of unused telephone time related to the prepaid calling cards sold. The Company receives transaction reports by activated PIN codes from the long distance provider.

**g) Property and equipment** All property and equipment is recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the costs and related accumulated depreciation are eliminated from their respective accounts, and the resulting gain or loss is included in the results of operations. Repairs and maintenance charges which do not increase the useful lives of the assets are charged to operations as incurred.

**h) Revenue recognition** The Company currently has two revenue streams: 1) prepaid telephone calling cards and 2) the sale of its "Gateways". The Company recognizes revenue on the prepaid telephone cards based upon actual usage as provided by the service provider in reports detailing usage by activated PIN codes. Since

**IPVoice.com, Inc.**  
**(A Development Stage Enterprise)**  
**Notes to Consolidated Financial Statements**

**(1) Summary of Significant Accounting Principles (Continued)**

h) **Revenue recognition (continued)** the Company requires payment in full by the wholesaler upon PIN code activation, in blocks, the amount received by the Company in excess of that reported by the provider is classified as deferred revenue. Revenue from the sale of the Company's "Gateways" is recognized upon acceptance of the equipment by the purchaser. Although the accounting for the two revenue streams is different, they are both part of the Company's single line of business.

i) **Research and development** Research and development costs are expensed in the period incurred.

**(2) Stockholders' Equity** The Company has authorized 50,000,000 shares of \$0.001 par value common stock and 10,000,000 shares of \$0.001 par value preferred stock. Rights and privileges of the preferred stock are to be determined by the Board of Directors prior to issuance. The Company had 16,422,758 and 12,578,999 shares of common stock issued and outstanding at December 31, 1999 and 1998, respectively. The Company has 1,150 and 0 shares of senior convertible preferred stock issued and outstanding at December 31, 1999 and 1998, respectively. In February 1997, the Company issued 9,000,000 shares to its founder for services rendered to the Company valued at par value, or \$9,000. In March 1997, the Company completed a Regulation D Rule 504 Placement for 1,400,000 shares in exchange for \$14,000 cash.

In March 1998, a majority shareholder donated 9,000,000 shares of common stock to the Company. 9,000,000 shares were simultaneously issued for the acquisition of IPVoice Communications, Inc., a Delaware corporation (Note (1)(b)). During the second quarter of 1998, the Company issued 144,000 shares of common stock for \$144,000 in cash. The Company issued 473,000 shares of common stock for services rendered, valued at the current market rate of \$47,300, during the third quarter of 1998. Also during the third quarter, the Company issued 183,333 shares of common stock for \$85,000 in cash, and 627,000 shares of common stock for a subscription receivable of \$62,700. In the fourth quarter of 1998, the Company issued 275,000 shares of common stock for services rendered, valued at the current market rate of \$41,250. In the same quarter, 476,666 shares of common stock were issued for \$121,800 in cash.

In January 1999, the Company issued 93,760 shares of common stock in exchange for services, valued at \$14,064. In January and February 1999, the Company issued 499,999 shares of common stock in exchange for \$75,000 in cash. In March 1999, the Company issued 187,500 shares of common stock for \$75,000 in cash. These issuances were to then current stockholders. In March 1999, the Company issued 400,000 shares of common stock for services, valued at the current market rate of \$415,500, to three previously unrelated entities.

In April 1999, the Company issued 250,000 shares of common stock to an existing stockholder for \$100,000 cash. In April 1999, an existing stockholder exercised a warrant for 155,000 shares of common stock by tendering \$100,000 cash. In April 1999, an existing stockholder exercised a warrant for 1,600,000 shares of common stock by tendering \$96,000 in cash. In the second quarter, the Company completed a Regulation D Rule 506 Private Placement for units, which included the issuance of 1,150 shares of senior convertible preferred stock in exchange for \$4,600 in cash. These senior convertible preferred shares, as a group, are convertible into common shares equaling 51% of the issued and outstanding common shares after conversion, in the event of an uncured default of the notes payable.

**IPVoice.com, Inc.**  
**(A Development Stage Enterprise)**  
**Notes to Consolidated Financial Statements**

(2) **Stockholders' Equity (Continued)** In July 1999, the Company discovered that it had failed to issue and record 10,000 shares of common stock in exchange for legal services, valued at \$10,000 in 1997, as originally contracted. These shares were recorded in July 1999. In August 1999, the Company issued 437,500 shares of common stock for \$175,000 cash. All common stock shares issued in exchange for cash, except the two warrant exercises, were subscribed for in January 1999. In November 1999, the Company issued 10,000 shares of common stock in exchange for services valued at \$23,750. In December 1999, the Company discovered that it had failed to issue and record 200,000 shares of common stock for services valued at \$20,000, which had been contracted for in October 1998, and were recorded in December 1999.

(3) **Income Taxes** Deferred income taxes (benefits) are provided for certain income and expenses which are recognized in different periods for tax and financial reporting purposes. The Company had net operating loss carry-forwards for income tax purposes of approximately \$2,504,500, which expire beginning December 31, 2117. There may be certain limitations on the Company's ability to utilize the loss carry-forwards in the event of a change of control resulting from the conversion of the senior convertible preferred stock, should that occur.

The amount recorded as a deferred tax asset, cumulative as of December 31, 1999, is \$1,002,000, which represents the amount of tax benefits of the loss carry-forwards. The Company has established a valuation allowance for this deferred tax asset of \$1,002,000, as the Company has no history of profitable operations.

The significant components of the net deferred tax asset as of December 31, 1999 are:

Net operating losses	\$ 1,002,000
Valuation allowance	<u>(1,002,000)</u>
Net deferred tax asset	<u>\$ 0</u>

(4) **Going Concern** As shown in the accompanying consolidated financial statements, the Company has incurred a net loss of \$2,504,500 since inception. At December 31, 1999, the Company reflects negative working capital of approximately \$150,000 and stockholders' deficiency of approximately \$918,000. These conditions raise substantial doubt as to the ability of the Company to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon increasing sales and obtaining additional capital and financing. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. The Company has retained the services of a registered broker/dealer and is in negotiations with an investment group, introduced by the broker/dealer, for an investment of up to \$5,000,000 in two tranches of \$2.5 million within the next 12 months.

(5) **Related Parties** At December 31, 1999, the Company owed two of its officers \$17,403 for reimbursement of expenses paid on behalf of the Company. This amount is represented in Accounts payable - officer. At December 31, 1999, the Company owed two of its shareholders \$40,896 for consulting services performed on behalf of the Company. This amount is represented in Accounts payable - related party. Total consulting fees incurred to a shareholder during the year amounted to \$131,064. Consulting fees in the amount of \$136,500 were paid to two officers, \$30,000 of which was paid to one officer prior to his election.

**IPVoice.com, Inc.**  
(A Development Stage Enterprise)  
**Notes to Consolidated Financial Statements**

**(9) Commitments and Contingencies (Continued)**

a) **Consulting agreements - related parties (continued)** In October 1998, the Company entered into a consulting agreement with a previously unrelated party. This agreement called for the issuance of 350,000 shares of common stock valued at \$35,000, an option for 1,600,000 shares of common stock at an exercise price of \$0.06 per share, an option for 350,000 shares of common stock at an exercise price of \$3.90 per share, a five-year warrant for common stock shares equal to five per cent of the then issued and outstanding common stock at exercise with a strike price of \$1.00 per share and consulting fees for a 30 month period, beginning in September 1998, in the amounts of: \$4,000 per month for the first 6 months, \$6,000 per month for the next 12 months, and \$8,000 for the last 12 months. At December 31, 1999, fifteen months remain under this agreement. The Company is obligated for payments totaling \$90,000 in 2000, and \$24,000 in 2001.

At the end of the first quarter of 1999, the Company entered into three marketing agreements with three previously unrelated companies. Those agreements called for the issuance of 100,000, 200,000 and 100,000 shares of common stock. One agreement also called for the performance based issuance of up to 150,000 shares of common stock and the performance based issuance of warrants for up to 450,000 shares of common stock, with an exercise price of \$2.50 per share.

b) **Consulting agreements - other** In June 1999, the Company entered into a one-year consulting agreement with an unrelated individual which called for payment of \$100,000. In 1999, the Company paid \$45,800 of this fee, and is obligated to pay the \$54,200 balance during 2000.

c) **Leases** The Company entered into a one-year lease for its office space beginning in August 1999. The Company is obligated to rental payments amounting to \$27,000 in 2000. In 1999, the Company paid \$35,000 in office rent. In November 1999, the Company entered into a one-year lease for an apartment for the Company's use. In 1999, the Company paid \$1,700 in rent, and is obligated to pay \$8,700 in 2000.

d) **Pending Litigation** In December 1999, SatLink filed a lawsuit alleging breach of contract as a result of the rescission of the acquisition in October 1999, as discussed in Note 6 above. In December 1999, the former CFO of the Company filed a lawsuit alleging breach of contract as a result of the rescission of the employment agreement in October 1999, as discussed in Note 6 above. The Company believes these suits have no merit and intends to vigorously defend them.

e) **Employment agreements** In April 1998, the Company entered into three-year employment agreements with the President and the Senior Vice President. These agreements call for salaries in the amount of \$150,000 per year for each of those officers. In September 1999, those officers agreed to reduce this compensation to \$90,000 per year until such time as the Company is profitable. The reduction agreements do not call for an accrual and payment of the difference. In November 1999, the Company entered into a two-year employment agreement with its Executive Vice President, (EVP), which calls for a salary of \$78,000 per year and granted the EVP four-year options for 50,000 shares of common stock, with an exercise price of \$1.75. These options are not exercisable until the stock trades above \$7.50 and \$12.00 per share for ten days out of thirty consecutive days, one-half and one-half, respectively. The Company is obligated to pay a total of \$258,000 in 2000 and \$110,000 in 2001, under these employment agreements.

**IPVoice.com, Inc.**  
**(A Development Stage Enterprise)**  
**Notes to Consolidated Financial Statements**

**(10) Subsequent Events**

a) **Leases** In January 2000, the Company entered into a financing lease for a telephone system valued at \$13,000, which calls for the Company to make payments totaling \$4,500 per year for four years.

In January 2000, the Company entered into a three-year operating lease with a stockholder of the Company. This lease calls for a fair market value purchase at lease end. The lease is for the Company's "Gateway" equipment located in New York City and Los Angeles. The Company is obligated to the following payments: \$36,800 in 2000; \$40,000 in 2001; \$40,000 in 2002 and \$3,300 in 2003.

b) **Stock option plan** In December 1999, the stockholders approved for the Board of Directors to adopt an employee stock option plan. This plan reserves up to 1,000,000 shares to be issued upon the exercise of such granted options. The plan, which was not finalized until early 2000, allows for the grant of qualified and non-qualified options, as defined by Section 422 of the Internal Revenue Code of 1986, as amended. To be eligible, a grantee must have been employed by the Company for a minimum of 60 days, or be a Director of the Company. The plan contains various exercise price calculation formats. No options have been granted pursuant to this plan.



#### Attachment F – Network Information

Focused on small and medium-sized businesses, utilizing Voice Over DSL technology, the company intends to provide a comprehensive package of telecom and high-speed Internet services, including DSL access, web hosting and site development. IPVoice will utilize the Lucent 5ESS switch or a similar switch, combined with leased fiber-optic capacity to give customers flexibility and reliability in its network. Current business and network plans call for market entry via resold LEC and IXC facilities. When customer demand warrants, IPVoice will provide the LEC services via the installation of the following or a similar configuration of equipment: **IPVoice will provide voice and high speed data services through a combination of the latest technology switching and transport media comprised of the Lucent Technology 5 ESS Generic 13 switch module, ADSL/SDSL transport and Internet service equipment and the latest Optical multiplexer DAC's configurations. The switching system consists of a central processing and control complex capable of interconnection as a peer to the incumbent as well as competitive local exchange companies. The hub portion of the switch will interconnect with the public switched network on Signaling System 7 ("SS7") or Feature Group D ("FGD") facilities. The system's remote module capability will allow properties to be served in a manner that provides the exchange of appropriate signaling, control and calling/caller information to the network in accordance with network standards and specifications. Additionally, these services will be delivered over a combination of delivery mechanisms through incumbent local carriers' unbundled loop network, both copper and fiber and transport networks, as well as via IPVoice constructed facilities.**